

Reporter

A Newsletter for Employers

Spring 1999

Auto Manufacturers' Incentive Payments to Salespersons are Taxable Income

Did you know that incentive payments paid by an automotive manufacturer, whether directly to individual salespersons or through a dealer, are taxable income?

The good news is that these payments, reported on Form 1099-Misc, "Miscellaneous Income", are not treated as wages. Therefore these incentive payments from the manufacturer are not subject to federal income tax withholding, Social Security, Medicare, or federal unemployment tax. Also, these payments are not considered to be self-employment income and therefore are not subject to self-employment tax.

If you are the recipient of a manufacturers' incentive payment, you need to report the income on your U.S. Individual Income Tax Return, under "Other Income." The expenses that you incur to get the incentive payment may be deductible on Schedule A, "Itemized Deductions" (Form 1040), under category, "Job Expenses and Most Other Miscellaneous Deductions," (line 22 "Other Expenses") and are subject to the 2% adjusted gross income limitation.

Note: This income may not be reported on Schedule C (Form 1040), "Profit and Loss From

Business", because recipients of these payments are not engaged in an individual trade or business and are therefore not self-employed. Similarly, no expenses may be taken on Schedule C to offset incentive payment income.

If your tax return is prepared by someone other than yourself, make sure that the preparer is aware of the filing guidelines described here for incentive payments. For information on taxable income, including bonuses and awards, see Publication 525, *Taxable Income and Non-Taxable Income*. You may call the IRS at 800-829-3676 (800-Tax-Form) to order free IRS tax publications and forms, or you can download and print publications, forms and other tax information materials from the Internet or the IRS Bulletin Board System - Internal Revenue Information Services (IRIS).

Internet -

www.irs.ustreas.gov

File Transfer Protocol -

ftp.irs.ustrea.gov

Telnet - [iris.irs.ustrea.gov](tel://iris.irs.ustrea.gov)

IRIS - (703) 321-8020

From a fax machine, dial (703) 368-9694 and follow the voice prompts to get an index of IRS tax forms or to get a specific form faxed back to you. -IRS

State Taxing Authorities Encouraged to Convert to SSA's Year 2000 Reporting Format

State taxing authorities who have not converted to SSA's Magnetic Media Reporting and Electronic Filing (MMREF) format for state Form W-2 reporting are encouraged to do so during tax year 1999. The MMREF is SSA's new and expanded Year 2000 compliant reporting format. It replaces the existing Technical Information Bulletin (TIB-4) for all W-2s submitted to SSA on magnetic tape, cartridge, diskette or via electronic filing. For state reports, the new format provides:

1. Four character year presentations for the following fields:

Reporting Period, record length 6

Date First Employed, record length 8

Date of Separation, record length 8.

2. Wage field lengths expanded from 9 to 11 spaces to accommodate for large dollar amounts.

3. Employee name field expanded to three fields, providing for separate locations for first name, middle name/initial, and last name.

4. Two free form fields, 75 spaces each, added at locations 338 and 413 for use by individual States/users.

SSA allowed employers to start using the new Year 2000 format

in tax year 1998 as part of its 3-year transitional plan. All employers (except paper filers) will be required to convert to the new format for tax year 2001 reporting (that's for W-2s due to SSA by January-February 2002). According to Norm Goldstein, SSA's Senior Financial Executive, "Early conversion is imperative. This is a huge undertaking involving every employer who files W-2s with SSA on magnetic media or electronically, that's more than 120 million W-2s." Mr. Goldstein went on to explain that as with any systems conversion, if everyone waits until the last minute, it could cause "major delays in posting federal and state wage/tax information".

States who do not accept the new federal MMREF format sooner than 2001 create a potential problem for the employers who want to convert early. Those employers could be faced with having to support two formats — the MMREF for federal W-2 reporting purposes and the older TIB-4 format for State reporting purposes. A recent study shows that about one-fourth of the State taxing authorities that accept magnetic media filing of W-2s have converted to the MMREF format.

The impact of the new MMREF record format affects both State revenue agencies and State unemployment agencies. The Code RS, State Record, includes both employee revenue (wage and tax) data as well as unemployment insurance data. In some States, the revenue office and the unemployment insurance office are housed in separate departments. It is important that both offices communicate and coordinate their

Year 2000 Form W-2 conversion to ensure a smooth transition.

Expert staff is available to help you in all aspects of wage reporting and Year 2000 conversion. Any State taxing authority wanting information about converting to the MMREF is encouraged to contact Social Security's Magnetic Media Coordinator serving your State. For the telephone number of your State's coordinator, contact SSA's employer hotline at 800-772-6270. —SSA

New Instructions and Teaching Aids Available

Sick Pay Definition: Any amount paid under a formal plan because of an employee's temporary absence from work due to injury, sickness, or disability. —IRS Publication 15-A

Understanding what is considered sick pay, how it's reported and who should report it (the employer or third-party agent/insurance company) can be a complex and often misunderstood process. Many times it results in faulty W-2 reports of sick pay wages sent to SSA. These faulty reports can cost the employer time and money down the road when IRS attempts to reconcile their Forms 941 with their Forms W-2/W-3.

SSA revised the instructions, forms and training material to make it easier for payroll professionals and insurance personnel to report sick pay. The new instructions and forms changes are in the 1999 version of the IRS Publication 15A, Employer's Supplemental Tax Guide and the 1999 Forms W-2/W-3 instructions. To order the publication and forms, call IRS at 800-829-FORM.

New instructions provide additional sick pay reporting guidance that includes:

- Preparing a "third-party sick pay recap" Form W-2 and a separate "third-party sick pay recap" Form W-3. These forms, previously called "dummy" forms, do not reflect sick pay paid to individual employees, but instead show the combined amount of sick pay paid to all employees of all clients of the third party. The recap forms provide a means of reconciling the wages shown on the third party's Form 941.

- Entering "third-party sick pay recap" in place of the employee's name in Box e of the W-2.

- Emphasizing that sick pay must be reported to SSA on paper W-2/W-3. Magnetic media or electronic reports are not accepted.

- Additional clarifying language added to both Publication 15A and Form W-2/W-3 instructions.

A 15-minute training video, *Understanding Sick Pay Reporting*, is available as an additional resource to payroll and insurance personnel who report sick pay. Along with the video, you'll receive a Teacher's Guide that contains materials to give you a basic but thorough explanation of sick pay reporting. The guide is designed for teachers and presenters engaged in training employers, payroll and insurance personnel who file wage and tax reports on sick pay payments. The guide contains:

- A scripted presentation,
- Master slides that can be photocopied to make overhead transparencies or used as a handout package, and
- A participant's guide/workbook.

The guide is available to employers as a Microsoft Power-Point scripted presentation that can be downloaded from the employer section of SSA's web site (www.ssa.gov/employer_info). To order the video and teacher's guide, call the SSA Regional Magnetic Media Coordinator serving your state. To find the coordinator for your State, call the SSA employer hotline at 800-772-6270. —SSA

New Help for Employers with Child Support Responsibilities

from the Federal Office of Child Support Enforcement (OCSE)

When you hire new employees, you are required to report certain information for purposes of child support enforcement. Employers can learn what they need to know about new hire reporting and about child support by using two information packets developed by the Department of Health and Human Service's Office of Child Support Enforcement (OCSE). *New Hire Reporting* and the *The ABCs of Child Support: Employer Overview* are now available through the Government Printing Office (GPO).

New Hire Reporting (stock # 017-091-00249-5, \$3.50 per copy) provides background information on the nation's Child Support Enforcement Program and on employers' new hire reporting responsibilities.

The ABCs of Child Support: Employer Overview (stock # 017-091-00248-7, \$4.75 per copy) describes all aspects of the child support process and includes the telephone numbers for state child support enforcement offices.

To order, call GPO's Superintendent of Documents at (202) 512-1800 or visit the GPO website at www.access.gpo.gov. A 25% discount will be applied to bulk orders of 100 or more.

For more information on child support enforcement, please visit the OCSE website at www.acf.dhhs.gov/programs/cse. - DHHS/IRS

IRS-SBA Partnership Helps Entrepreneurs

Business Information Centers

During the past year the IRS has been partnering with the Small Business Administration (SBA), to provide tax forms and publications to businesses at five of the SBA's Business Information Centers (BIC). Small business owners reacted positively and now the materials are going to be offered at all 53 BICs and four One Stop Capital Shops. The partnership between the IRS and the SBA will help business owners save their available time and resources by obtaining assistance from two federal agencies at a single location.

The SBA and the IRS are planning to pilot a program that will begin offering IRS educational assistance one day each week at BIC locations in Atlanta, Boston, Chicago and Los Angeles. The expanded service is targeted to new and prospective business owners and will include small business workshops and one-on-one counseling. IRS assistance will be strictly educational and will not include help with any taxpayer's individual tax delinquencies. Providing IRS educational assistance at the BICs will complement the impressive array of services that BICs already provide businesses.

The BICs offer an excellent opportunity to expand IRS assistance outreach to small businesses. Both the SBA and the BICs enjoy an excellent reputation in the small business community and are visited by more than one half of all new business owners. By partnering with the SBA, the IRS can reach small business entrepreneurs during their earliest planning stages or

soon after they open their doors. Providing educational assistance at these junctures can help familiarize business owners with their tax obligations and improve the chances of positively influencing tax behavior.

Most of the 53 BICs are located in urban areas and are funded by the SBA and private partners. They assist new businesses by offering the latest in high-tech hardware, software, telecommunications and one-on-one counseling. BIC personnel also help businesses evaluate and improve their marketing, sales techniques and product pricing. Services are provided free of charge or for a minimal fee.

The Service Corps of Retired Executives (SCORE) provides expert on-site assistance and an array of training seminars. By using BIC resources, business owners can develop a well-crafted, comprehensive business plan that can guide them through the first steps of establishing a business correctly and/or learning how to expand their business.

The IRS Small Business CD-ROM

The IRS/SBA partnership is planning to introduce a test version of an interactive small business CD-ROM, *A Small Business Resource Guide: What You Need to Know About Tax and Other Topics*. Currently under development, a limited edition test version of the CD-ROM should be available at the BICs in the Spring of 1999.

The CD-ROM contains information and products that small businesses need and may find useful. -IRS



EFTPS Is A Growing Success

Since January 1996, more than 700,000 taxpayers have voluntarily enrolled in the Electronic Federal Tax Payment System (EFTPS). The number of taxpayers enrolling in the system continues to increase at a rate of approximately 6,000 per week. EFTPS lets taxpayers pay their Federal taxes by telephone, personal computer or through a service offered by their financial institution.

There are more than 2.6 million taxpayers currently enrolled in EFTPS, making it one of the world's largest electronic payment collection systems.

The system is primarily used by businesses for payment of their Federal payroll taxes; however, it can accept payments for other taxes as well. More than \$1.8 trillion dollars has been collected through the payment system, to date.

EFTPS is a growing system that is accurate and very easy to use. It saves taxpayers those last minute trips to the bank with checks and coupons. EFTPS is one of the many electronic alternatives being offered by the U.S. Treasury to provide businesses and individuals with a simple, integrated approach to managing their tax dollars and information.

For free EFTPS enrollment forms, taxpayers, tax professionals and financial institutions may call 800-555-4477 or 800-945-8400.
—IRS

SSA Reconciles W-2s and 941s

SSA began its process to reconcile employer wage reports for tax year (TY) 1997 on November 6, 1998. At that time, notices were sent to those employers having a history of sending only one wage report to SSA each year and having reported less wages to SSA than taxes reported to IRS for TY 1997. The bulk of the SSA produced reconciliation notices were mailed in the first calendar quarter of this year.

A change for TY 1997 reconciliation is that employers whose Employer Identification Numbers (EINs) beginning with the first two digits of 01 through 53 received reconciliation notices the end of February 1999. Those employers with EINs beginning with the numbers 54 through 99

will receive initial reconciliation notices the end of March 1999. This split was done to divide the workload so that SSA can better respond to employers who have questions about the reconciliation notices.

Employers who have questions about an SSA reconciliation notice should contact SSA at the employer toll-free number, 800-772-6270 between 7:00 A.M. and 7:00 P.M., Eastern time, Monday through Friday.

SSA sends reconciliation notices when our records show that we processed no wages or less wages than taxes were reported to the IRS. Employers are requested to provide the missing information so that the earnings records for their employees can be updated with all wages. —SSA

Social Security Prepares for Annual Mailings to Workers

The Social Security Administration has just completed mailing a Personal Earnings and Benefit Estimate Statement to approximately 30 million workers who are between the ages of 40-47. A series of statement mailings to older workers has taken place over the last three years as SSA prepares to implement the law that requires sending a statement each year beginning October 1, 1999 to all workers age 25 and older.

The annual statements are intended to help workers better understand what Social Security means to them and their families. They will also help workers make sure the earnings posted to their Social Security record are accurate. This is especially important because benefit amounts are based on the earnings posted to a worker's record. If Social Security's record is incorrect, the worker may not receive all of the benefits he or she has earned.

The statements urge workers to use their own documents (pay stubs, W-2 forms and tax returns) to check to make sure their posted earnings record is correct. Workers also are encouraged to contact Social Security at 800-772-1213 if they think any of their earnings are recorded incorrectly. —SSA

